

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Senate Bill 1020**

**Senator Escutia (As amended 6/04/01)**

### **Position:**

**No position**

### **Proponents:**

**California Manufacturers and Technology Association, Long Beach Unified School District, California League of Middle Schools, Los Angeles Unified School District**

### **Opponents:**

**CTA, UTLA**

## **SUMMARY**

This bill offers state financial incentives to school districts with schools that increase the school year in grades seven and eight and either grade six or nine by 20 days, or other specified days and hours for year-round schools beginning in the 2001-02 or 2002-03 school year. This bill makes other changes in programs concerning school districts, which are not addressed in this analysis. The bill would only become operative if SB 33 (Soto), SB 466 (Ortiz) and SB 508 (Vasconcellos) are enacted.

## **HISTORY**

Chapter 498, Statutes of 1983 (SB 813—Hart) establishes fiscal incentives for school districts to lengthen the school year from 175 to 180 days, and to lengthen school days by from 20 minutes to as much as two hours, depending upon grade level. Most school districts took the incentive funding and continue today to meet or exceed incentive levels of instructional time offerings.

## **CURRENT PRACTICE**

A retirement allowance under the California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program is based on the member's years of credited service, age at retirement, and final compensation. For members with 25 years or more of credited service, final compensation is based on the highest compensation earnable for 12 consecutive months, rather than three consecutive years. A member retiring at the age of 60 receives an allowance equal to two percent of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60, and increases after age 60, up to a maximum of 2.4 percent at age 63.

Final compensation is the average annual compensation that would be earned for creditable service if the member was employed on a full-time basis. This is referred to as the "compensation earnable". To determine the annual compensation earnable for a position, the gross monthly pay rate per pay period is multiplied by the number of months over which that rate

was payable. Overtime compensation is not included in the determination of final compensation. Beginning in 2002-03, contributions for overtime compensation, which would include such things as compensation paid to a member who taught summer school in the same school year that she taught full-time, will be credited to the Defined Benefit Supplement (DBS) Program.

Under current law, "full-time" means the number of days or hours of creditable service the employer requires to be performed by a class of employees in a school year, agreed to in a collective bargaining agreement or employment agreement, in order to earn the compensation earnable in a school year, thereby earning 1.000 years of credited service. The minimum standard for a full-time K-12 instructor is 175 days per year or 1,050 hours per year.

## **DISCUSSION**

This bill establishes the California Middle Grades Extended Year Incentive Program. Under this program, a school district that adds 20 days to a school year (totaling 195 to 200 days of instruction) and meets other specified conditions would receive incentive funding. Districts with qualifying schools would receive an apportionment of \$514 per year for unit of average daily attendance participating in the program, subject to the availability of funds appropriated for the program.

According to the author, the extended school year is intended to improve reading ability and test scores. The author states that reading scores in the middle grades have not progressed as rapidly as the reading scores in the primary grades, and this bill is an attempt to have middle school students acquire the necessary skills to achieve reading and math competency as it relates to the California academic content standards. With the additional 20 days of instruction, along with the proposed two new block grant programs, the sponsor hopes that the students will pass the state high school graduation exam, now set to begin in 2004.

School districts that participate in the program proposed in this bill would be increasing the length of the school year by 20 days, which, for most districts, would increase the school year to 200 days. Because teachers who provide instruction under this program would be required to perform additional days of service, CalSTRS staff anticipate that these additional days would be included in the number of days needed for those teachers to achieve 1.000 years of credited service for that school year. Assuming no other change in the effective daily pay rate, these 20 additional days would increase the full-time annual salary for a participating teacher by over 11 percent. This increased full-time salary could result in an equal increase in the compensation earnable, which would increase the member's final compensation, thereby increasing the member's retirement benefit.

For example, if a teacher is currently teaching 180 days and earns \$45,000 per year, and her full-time assignment is increased to 200 days by participating in this program, her full-time salary could increase to \$50,000. If she has 30 years of service and retires at age 60, her retirement allowance would increase by \$3,300 per year. This would increase her lifetime benefit by over \$100,000.

For members whose career is performed primarily within the longer school year, the higher final compensation would not have a material cost effect on the DB Program, because the program would be receiving higher contributions for the higher compensation paid during the member's career. For members who perform such service only during their final compensation period, however, the contributions the DB Program would be receiving from a member's service would largely be based on a 180-day school year, but the benefit paid to the member would be based on a 200-day school year. With final compensation being based on the highest 12 consecutive months of compensation for most members, members could significantly increase their retirement benefit, without a corresponding increase in program contributions, by teaching in an extended school year program for one year. Not only would this affect the funding status of the DB Program, this also may increase the turnover in schools offering the longer school year, if teachers elect to participate in this program for only one year in order to increase their final compensation just before retirement. Moreover, a member who teaches full-time and summer school would receive a different set of retirement benefits (a DB Program benefit and a DBS Program benefit) than would a member who teaches full-time in an extended year middle school (a larger DB Program benefit)

## **FISCAL IMPACT**

Benefit Program Costs – According to the Board of Education, in 1999-2000 there are approximately 1,243,190 students in grades 7 and 8, and grades 6 or 9. Based on an average class size of 28 students, approximately 45,000 teachers in the middle grades would be affected by this bill. Assuming all middle school teachers participated in the program, extending the contracts for middle school teachers from 180 days to 200 days would increase costs to the System as follows:

	<b>Present value cost (in millions)</b>	<b>Increase in annual contributions needed as a percent of payroll</b>
Normal cost increase of future service	--	--
Actuarial obligation for prior service <sup>1</sup>	\$695	0.203%
Total costs	\$695	0.203%

<sup>1</sup> Amortized over 30 years

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Total benefit payment increase	\$1.7	\$4.7	\$8.1
Annual increase in contributions (funding) needed to fund benefit <sup>2</sup>	\$82	\$86	\$89

<sup>2</sup> Based on a payroll of \$20.7 billion in 2002-03, increasing by 4.25 percent annually

These costs would increase if there were an increased experience in members teaching middle school only during their final compensation period.

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative cost to implement this proposal.

## **BOARD POSITION**

No position. This bill is part of the Governor's initiative to achieve grade-level competency in reading and mathematics in the middle school grades before students they enter high school. There will be an impact on CalSTRS members should this measure pass if members elect to teach at a participating middle school later in their career or during their final compensation period. However, because the focus of this bill concerns policies affecting California's middle school students, and not retirement, the Teachers' Retirement Board has no position on this bill.